87-00423/

TABLE OF CONTENTS

	Page
Introduction	1
Overview of Canada and Saskatchewan Trade	3
Saskatchewan and the Changing Reality in International Markets	5
Options for the Future	8
Saskatchewan Trade by Sector	9
Conclusion	18
Addendum I - The ABC's of Trade: A Glossary of Terms	
Addendum II - Charts on Canadian and Saskatchewan Trade	
Addendum III - Relevant Publications	

For further information or
additional copies contact:

Trade Negotiations Secretariat
11th Floor, 1874 Scarth Street
Continental Bank Building
Regina, Saskatchewan
S4P 2G9
(306) 787-8903

September, 1986

(Revised Version)

INTRODUCTION

The Government of Canada recently embarked on crucial Bilateral Trade Negotiations with the United States. These talks were initiated last fall by Prime Minister Mulroney and President Reagan. A comprehensive Canada/U.S. trade arrangement would mark a milestone in Canada's economic history.

The outcome of these talks and of the upcoming multilateral negotiations will determine the rules under which Canada can compete in the North American and international markets for the next ten years. Once these new rules are established, it will be up to the industries and people of Saskatchewan to work, invest and compete so that the province can realize its full potential in world markets.

Although the Canada/U.S. Bilateral Trade Negotiations have been headline news, the Multilateral Trade Negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), to be launched September 15, 1986, will also have a large impact on Saskatchewan. Both sets of negotiations are important for Canada to secure and increase our access to the largest and closest market, the United States, as well as to other parts of the world. For Saskatchewan, the Multilateral Trade Negotiations take on added significance because our most valuable export commodity group, grains and oilseeds, is sold almost entirely to offshore markets. It is crucial for Saskatchewan that agricultural export subsidies are brought under the GATT multilateral rules, in order to restrain the current export subsidy programs of the European Community and the United States.

The Government of Saskatchewan is determined to play an active role in these negotiations so as to protect what we have and to achieve for our citizens greater opportunities and a more secure economic future.

This background paper, with a focus on the bilateral negotiations, is designed to provide facts and figures to provide a better understanding of the forces that affect Saskatchewan's trade opportunities now and in the future.

The Significance of Negotiations

Trade is important to Canada. Thirty per cent of the Canadian Gross National Product (GNP) is directly attributed to export trade. Saskatchewan is even more export-oriented as fully 42 per cent of the provincial Gross Domestic Product comes directly from production sold outside the province.

The U.S. is the most important market to both Canada and Saskatchewan. At present, just under 80 per cent of all Canadian exports are to the U.S. and, although the U.S. market only accounts for about 45 per cent of Saskatchewan exports, fully 19 per cent of the provincial GDP comes from exports to the U.S.. These facts simply underscore the importance of both the Bilateral and Multilateral Trade Negotiations to a province like Saskatchewan.

For Saskatchewan, these negotiations are crucial. Ours is a resource-based economy which is highly dependent on trade. Saskatchewan exports the majority of its products and imports most of its everyday necessities. The Saskatchewan economy must adjust to a changing international marketplace which is characterized by:

- expanding competition from less developed countries;
- increasing protectionism and
- lower commodity prices.

Successful trade negotiations on a new bilateral trade regime would mean the reduction or elimination of remaining tariffs and the establishment of a new set of rules to guide the trading practices of Canada and the U.S. This new comprehensive trade arrangement would have the potential to:

- reduce or eliminate tariffs on goods and services traded between the two countries, thereby reducing the cost of goods and services to consumers and industrial users;

- secure existing access for Saskatchewan companies to the entire North American marketplace, comprising some 275 million consumers;

- enhance export opportunities to the U.S. for Saskatchewan products and services and

- provide a more attractive climate for both domestic and foreign investment in export-oriented industries within Canada and Saskatchewan.

Some Canadians have raised concerns over the possible impact of a Canada/U.S. bilateral trade agreement on a number of broad political and economic issues. These include:

- maintaining Canada's political sovereignty to pursue its own economic development, foreign, social, cultural, environmental and other government policies;

- limiting Canada's economic future by tying ourselves too closely to the United States market and

- fear of loss of jobs if Canada cannot compete and adjust to an open marketplace.

The Scope of the Negotiations

Tariff levels have been dropping as a result of seven rounds of Multilateral Trade Negotiations since the formation of the GATT in 1947. However, because of the GATT's success at reducing or removing tariffs, countries have turned increasingly to non-tariff barriers to alleviate domestic problems and protect their non-competitive industries.

The Bilateral Trade Negotiations will focus on both the non-tariff barriers and the traditional tariff systems each country has in place. Today, tariffs are only one type of distortion in the marketplace. In fact, approximately 65 per cent of all U.S. exports to Canada are admitted tariff-free, while 80 per cent of Canadian exports to the United States enter tariff-free.

However, non-tariff barriers also act to distort efficient trade flows. Examples of such barriers would include contingency protection measures such as countervailing duties and anti-dumping duties; safeguard measures such as import quotas and voluntary export restraints; technical standards such as customs and health regulations and government procurement practices.

Although most of these non-tariff barriers are governed by international regulation, nations can find ways to limit competition that circumvent the existing international framework.

It is, therefore, in Canada's and Saskatchewan's interest to seek to establish a new framework of more predictable rules governing contingency protection procedures so as to limit significantly their application as trade barriers.

OVERVIEW OF CANADA AND SASKATCHEWAN TRADE

As we have seen, there are good reasons why Canada and Saskatchewan should be interested in a comprehensive trade deal with the United States.

The following will provide a perspective on the importance of trade to Canada and Saskatchewan:

Some Facts on Canada-U.S. Trade

- About 80 per cent of Canada's exports are to the United States.

- At present, Canada and Australia are the only major industrialized countries without secure access to a market of at least 100 million.

- Canada/U.S. annual trade of $160 billion is the largest bilateral trade relationship in the world.

- Canada is the largest and fastest growing market for United States exports.

Saskatchewan Exports

- In 1985, Saskatchewan had exports of about $7.5 billion (preliminary) to the rest of Canada and other countries, representing about 42 per cent of the provincial GDP.

- Trade directly accounts for one in four jobs in the province.

- Saskatchewan thrives because of trade. Its economic well-being depends on Canadian and international markets for wheat, oil, potash, uranium, livestock and manufactured goods.

- Trade has also been the basis for economic diversification in Saskatchewan. Since the 1950s, there has been a diversification from agricultural activity to mining and resource-related manufacturing, most of which is sold abroad.

- The grains and oilseeds sector had $2.4 billion (1985) in exports, virtually all offshore with very few shipments to the U.S..

- The livestock sector had total exports of $57 million in 1985. The majority of beef and cattle, all hogs and 84 per cent of pork exports were to the U.S..

- The oil sector had 1985 sales outside the province of roughly $2.2 billion, of which around $1.5 billion was sold to the U.S..

- In 1985, potash exports were about $645 million, of which approximately 60 per cent went to the U.S..

- The uranium sector had exports of $390 million (1985), of which about 35 per cent was to the U.S..

- Approximately 30 per cent of goods manufactured in Saskatchewan are sold outside the province.

- Well over 100,000 jobs in these and other sectors are directly dependent on export markets. Our exports are beneficial not only to those directly employed, but also to those industries providing materials and other inputs to the export sectors as well as those industries which depend on expenditures by the men and women employed in these export industries.

Saskatchewan Imports

- Saskatchewan imported approximately $7 billion worth of goods in 1985 (preliminary) from either the rest of Canada or other countries.

- We import, from Eastern Canada or other countries, the vast majority of the goods we purchase including food, clothing, household furnishings and farm equipment.

- Saskatchewan also imports most of the machinery and equipment used in the extraction and processing of our natural resources.

- All out-of-season fresh fruit and vegetables are imported from Florida, California, South America or Mexico.

- Most of the clothes we wear are imported from other provinces in Canada, as well as Hong Kong, Korea, Taiwan or Singapore.

- The same is true of household equipment, such as microwave ovens, VCRs, stoves, fridges, stereos, washing machines and vacuum cleaners.

SASKATCHEWAN AND THE CHANGING REALITY IN INTERNATIONAL MARKETS

The international marketplace is changing. Canada and Saskatchewan are facing a world trading environment which is increasingly highly competitive.

There are a number of factors that have influenced the world trading environment and have significant impacts on Saskatchewan's trading future.

Changing Markets

Newly-developed countries, once considered mere suppliers of raw materials, are now coming into their own, replacing imports and even competing in the export of value-added manufactured goods.

These countries, such as Korea and Taiwan, are highly competitive and are able to export standard manufactured goods with the aid of a large employment force of relatively inexpensive labour. Their impact is particularly noticeable in the production of textiles, clothing and footwear, but they have also emerged as fierce competitors in steel, ships, automobile parts and household electronics.

One source of shifting markets is the growing desire of many countries to strive for self-sufficiency, particularly in the field of agriculture. Self-sufficiency policies are particularly damaging to Saskatchewan, since we are internationally-competitive producers and export the vast majority of our agricultural production.

The European Community, North American and Third World subsidies, originally aimed at achieving self-sufficiency, have been so successful that they have resulted in global surpluses, seriously distorted food production patterns and now threaten the economic viability of naturally-competitive producers such as Saskatchewan.

China and the USSR, two of Canada's traditional grain buyers, have also, understandably, established policy goals for self-sufficiency in foods. Meanwhile, many other countries have caught up with and surpassed Canada to become international leaders in industrial technology. The sheer determination and competitiveness of the Japanese, for example, has taken its toll on North American producers who find it difficult to adjust rapidly enough. We now have difficulty securing new export opportunities to offset the impact of the increased penetration of our newest competitors in our domestic market.

Low Commodity Prices

Saskatchewan export prices for wheat, potash, oil and uranium have declined sharply since 1980, causing a major drop in the trade balance (total exports minus total imports).

As a result, our producers have had to sell more to offset the drop in price, or suffer a drop in income with subsequent impacts on our standard of living. Selling more has not been easy in the current highly competitive trade environment.

Both exporters and governments must work harder to resolve these problems.

Exporters must become more aggressive in selling abroad. They must be willing to price competitively and be more flexible on the terms of payments, for example, through countertrade and financing arrangements.

Since everyone loses from reduced or restricted trade, governments must work harder to obtain secure access to Canada's traditional markets. Canada must negotiate guaranteed access for our exported production. That, of course, implies that other countries will seek reciprocal access for their goods and services in the Canadian market.

Low commodity prices are not just felt by farmers and those employed in the affected industries. They result in the loss of important jobs in this province, a reduction in our purchasing power and eventually in the Saskatchewan standard of living.

Low prices affect the provincial treasury which depends heavily on revenue from these important sectors to finance social, employment and economic development programs.

Growing Protectionism

Perhaps the condition which will cause the most devastating impact on the international market today is the growing protectionism in the United States, the European Community and Japan, all important Canadian markets.

Protectionism is nothing new. It is an issue that has been around since the beginning of trade between nations. Because of our proximity to the United States, we tend to think of protectionism as an American characteristic. Yet, it is a problem which affects relations between developed and less developed countries and the relations between the European Community and the United States.

While protectionism has always existed, it has recently become increasingly stronger in the United States due to changes in the U.S. and world economies brought on by low commodity prices and the emergence of newly-industrialized countries. Moreover, in 1985 the U.S. had a current trade deficit of $150 billion. The U.S. merchandise trade deficit with Canada was about $20 billion in 1985.

The large U.S. budgetary deficit has kept U.S. interest rates higher than they would otherwise be. The high interest rates have drawn a large flow of capital into the U.S. which, in turn, has raised the level of the U.S. dollar making it exceedingly difficult for U.S. firms to compete against imports. In these circumstances, it is a challenge for the U.S. Administration to resist appeals for relief in the form of protection from competitively-priced imports.

The results can be seen in the U.S. Congress, where there are hundreds of protectionist bills proposed by American legislators. An example of U.S. legislation that may affect Saskatchewan is the House of Representatives' "omnibus" trade bill presently being moved through the U.S. legislative process. It contains a section on natural resource subsidies which, if passed, will allow the United States to decide unilaterally that a foreign country's natural resource products are subsidized if input costs are different (i.e. lower) than the equivalent American industry. If passed, this would have serious ramifications for many Saskatchewan industries, including oil, uranium, potash and softwood lumber.

existing U.S. trade legislation is already having a serious impact on Saskatchewan's economy. The U.S. Farm Bill is hurting Saskatchewan grain farmers by lowering its price support for wheat and introducing an export bonus program to recapture and increase its share of world markets. U.S. trade remedy laws are being used indiscriminantly by U.S. producers to limit imports of Saskatchewan steel, potash, uranium and hogs.

OPTIONS FOR THE FUTURE

The above issues are at the root of the very real problems facing Canada in general and Saskatchewan in particular. What do we do to combat growing protectionism and policies of self-sufficiency? How do we get other countries to buy our products at prices that will allow our industries to remain viable and healthy?

It is clear we cannot sit on a fence and wait for things to get better. The U.S. is already threatening actions which will severely affect our markets for potash and uranium, jeopardize employment in the softwood lumber industry and threaten the livelihood of the Saskatchewan grain farmer.

What Are Our Options Regarding Canada-U.S. Trade?

First, Canada can sit still and do nothing -- in effect, retain the status quo. This is not a viable option as the international marketplace does not exist in a static state. Protectionist actions by foreign governments will continue to protect their domestic producers. In fact, the status quo means the possibility of a constant erosion of markets for our products. Simply put, the status quo will not prevail and is not, therefore, a viable option.

Alternatively, Canada and the U.S. could negotiate sectoral free trade arrangements. Recent attempts to reach sectoral agreements have not succeeded. Under a Comprehensive Trade Agreement it is possible to have trade-offs to reach a mutually-beneficial arrangement. This would not be possible in a sectoral agreement. Furthermore, it is unlikely to find sectors where both sides will gain. Once both countries have taken "off the table" all those items that either would not want discussed, very little of significance to either country would be left "on the table". Finally, it is unlikely that the necessary waivers by the General Agreement on Tariffs and Trade would be obtained for a sectoral free trade agreement. The consent of two-thirds of the 92 contracting parties is required to approve a waiver. The Auto Pact is not a precedent. At the time it was signed, the North American market was held to be segmented from the rest of the world market because of the very different types of cars that were sold here. This clearly would not be possible today.

The third option is to work out a new comprehensive trade arrangement with the United States, based on the establishment of a new set of rules under which both countries conduct their trade with each other.

The Government of Canada holds the position that comprehensive, bilateral negotiations are essential if we are to solve our specific differences with the U.S., significantly reduce tariffs and create a new framework under which trade in goods and services is conducted. The Government of Canada will seek the most beneficial package for Canada. The Government of Saskatchewan will ensure that this package is of significant benefit to the province.

While a comprehensive trade arrangement with Canada's largest trading partner is important, Canada will also participate in the next round of Multilateral Trade Negotiations so as to secure and increase trade with our other trading partners. A Canada/U.S. comprehensive trade arrangement, consistent with GATT principles and rules, would serve as a useful model for the next round of multilateral talks.

SASKATCHEWAN TRADE BY SECTOR

The following section contains a preliminary description of selected sectors of the Saskatchewan economy. More specifically, this section looks at the relative significance of each sector of the economy and its dependence on exports. Where possible, we will identify issues that may be raised in the context of the Canada/U.S. trade negotiations.

Grains and Oilseeds

The agriculture sector is dominated by grains and oilseeds, which generated 80 per cent of the cash receipts for agriculture in 1980-84.

Grains and oilseeds are Saskatchewan's most valuable export commodity group, comprising approximately 80 per cent or $2.4 billion (1985) of total provincial agricultural exports. The markets for grains and oilseeds are virtually all offshore with very little movement to the United States.

The current agricultural trade war between the European Community and the U.S. is having a devastating impact on Saskatchewan farmers. The world price of wheat has dropped to a ten year low. Canada's traditional wheat markets are now being threatened by the U.S. Export Enhancement Program. The European Community and U.S. have systems of support prices for farmers and subsidies for exports that protect and insulate their farmers from the world market price and create huge surplus stocks of wheat in the world market.

The 1985 U.S. Farm Bill has lowered its price support for wheat and corn but maintained the target price for U.S. farmers, so that every dollar they lose because of lower prices will be made up by deficiency payments. An export bonus program has been introduced to recapture its share of world markets. The U.S. is now using export bonuses to undercut its competitors' prices. Recently, the U.S. Congress has proposed that the U.S. offer export bonuses to the USSR, Japan and China, Canada's largest traditional wheat customers. The U.S. Administration has already authorized such subsidies to be extended to the USSR.

It would be in Canada's and the United States' mutual interest to address this issue in the course of their bilateral trade talks. In doing so, they could develop a common position on a proposed set of GATT rules governing agricultural subsidies at the next multilateral round of talks.

A priority negotiating objective for Canada and Saskatchewan is to limit and reduce trade-distorting subsidies. These subsidies, such as those provided under the European Community's Common Agricultural Policy and the U.S. Farm Bill, should be brought under the rules of the GATT which already apply to trade in manufactured goods.

Grains and oilseeds will be discussed in the Canada/U.S. bilateral negotiations even though there is very little grain trade between Canada and U.S. The trade-distorting impact of the U.S. Farm Bill on our exports to third countries will be raised by Canada.

The U.S. will likely raise, as a trade barrier, the current import permit system for wheat, barley, oats and related products. The implications of removing import licenses for U.S. grain on maintaining our quality control and the Canadian Wheat Board marketing system must be closely examined. They may also raise the issue of Canadian transportation subsidies.

Oilseeds is a significant sector in Saskatchewan, accounting for $440 million (1985) in cash receipts and 10.5 per cent of total cash receipts. The major market for canola is Japan. Very few oilseed products are exported to the United States.

While canola has been granted "Generally Regarded as Safe" (GRAS) status in the U.S., the removal of the U.S. 8.5 per cent tariff on canola oil and the 16 cent per pound tariff on canola meal would offer Saskatchewan increased export potential in the lucrative U.S. market.

Livestock

Livestock is a significant industry for Saskatchewan, accounting for 20 per cent of total farm cash receipts or $720 million (1985). Livestock exports amount to $57 million. The majority of cattle and beef exports go to the U.S. All hogs and 84 per cent of pork products exported go to the U.S., with the remaining 16 per cent exported to Japan.

In Saskatchewan, meat processing ranks number one in annual sales for all manufacturing industries with almost $63 million in export sales. The industry employs about 1,300 people.

Access for livestock exports to the U.S. is subject to various non-tariff barriers. The U.S. Meat Import Law periodically limits imports of fresh, chilled or frozen beef and veal through mandatory quotas or voluntary restraints. Technical barriers such as health regulations and inspection procedures are also used to limit imports. As well, certain U.S. state governments have banned the import of live hogs because of the use of chloramphenicol in Canada. All these states have since removed the ban but only well after the use of this drug was prohibited in Canada.

The U.S. National Pork Council successfully won a case to have countervailing duties of 4.4 cents per pound placed on imports of Canadian hogs. This action was based on allegations that Canada's agricultural stabilization programs constitute a subsidy which is causing material injury to the U.S. hog industry.

It has been estimated that the countervailing duty resulted in about $6 million in lost revenue for Saskatchewan producers in 1985 alone.

There is also the potential risk of countervailing duties being placed on other livestock exports on the grounds that federal and provincial government programs, including government shares of stabilization programs, are unfair subsidies and therefore subject to countervail.

Poultry

The poultry industry is comprised of the production, processing and marketing of turkey, chicken and table eggs. All three commodities are produced and marketed under provincial and national supply management agencies.

Saskatchewan's primary chicken and turkey sector is comprised of approximately 90 production units, generating farmgate revenues of $24 million per year. The poultry processing industry employs 830 persons. Growth of the chicken industry has been strong over the last ten years.

Under Article XI of the GATT, Canada and all other signataries are allowed to have import controls to the extent necessary to protect their legitimate agricultural supply management systems. As a result, such trade-restricting controls exist in Canada's, and Saskatchewan's, poultry and dairy sectors.

Dairy

The dairy industry comprises the production and processing of milk and dairy products. The Saskatchewan dairy industry has almost 800 producers/fluid milk shippers. Farm cash receipts for milk, cream and related products generate approximately $90 million per year. The dairy processing industry employs an estimated 850 people.

Fluid milk is subject to a provincial supply management system and industrial milk sales are under a national supply management system. Under the current market share quota, milk supplies are consumed almost entirely within the province.

The U.S. also maintains highly restrictive import quotas, which are necessary to protect its government price support and offer-to-purchase programs.

Food and Beverages

The food and beverage sector is Saskatchewan's largest manufacturing sector. There are 205 firms which employ 4,200 persons and produce over $1 billion in shipments. Over half of the sales come from four companies: Intercontinental Packers, Dairy Producers Co-operative, Canada Packers and CSP Foods.

Major export products include pork, beef, canola meal and oil, dehydrated alfalfa, malt, honey, sunflower seeds, fish and wheat flour. Sixty per cent of all goods are sold in Saskatchewan, with 20 per cent going to other provinces, 10 per cent to the U.S. and 10 per cent to other countries.

The food processing industry is a model for the important economic link for the province between raw material supply and manufacturing.

While the industry has great strength in its local market, its biggest trade disadvantage is the distance to other markets. Transportation and distribution costs are significant for this sector.

Most processed foods face tariffs in other countries. The U.S. is the major market, because of its closeness, and generally has tariffs on food products. The U.S. limits the imports of dairy products and has standby authority to limit beef imports by Presidential proclamation.

An important food and beverage industry is the Saskatchewan brewing industry. It is dominated by three large companies: Labatt's, Molson Brewery and Carling O'Keefe, each of which has a plant in the province.

Saskatchewan's brewing industry provides jobs for about 500 people.

Because of legislation, the brewing industry has a captive provincial market. Provincially-controlled distribution restricts sales to those breweries which have an operating plant in the province. As well, the Litter Control Act restricts packaging of alcoholic and soft drinks to bottles. These policies significantly reduce access to imports from outside the province.

While Canadian breweries are performing well in the current domestic regulatory environment, there are some structural weaknesses in the industry that could become all too apparent in a more internationally-integrated market. This is partially so because the industry's cost-structure is conducive to very large economies of scale, giving rise to tremendous productivity advantages to those companies with high-volume operations.

The brewery industry in Saskatchewan will be affected in any enhanced trade environment which would allow access of U.S. beer to Canadian markets. If the market is not totally supplied by U.S. or large Eastern Canadian plants, breweries concentrating on regional markets will survive only through a major rationalization of the Canadian brewing industry.

Oil and Oil Products

Oil is Saskatchewan's principal mineral industry, second only to wheat in importance to the province. The value of 1985 production was about $2.4 billion. Industry employment in 1985 consisted of 4,850 permanent jobs and 2,300 person-years in temporary, drilling-related employment.

Ninety-seven per cent of crude oil production is sold outside the province, of which around 65 per cent goes to the American market.

Saskatchewan has large reserves of heavy oil. Current production is split almost evenly between heavy, medium and light oil.

Heavy oil is marketed largely to refineries in Minnesota and Illinois as they are better-equipped to handle heavy oil than are Eastern Canadian refineries. This leaves Saskatchewan heavily-dependent on U.S. markets. The development of heavy oil upgrading capacity in Saskatchewan will help alleviate this export dependence.

We currently enjoy free trade in oil. At the 1985 meeting between Prime Minister Mulroney and President Reagan, the two leaders agreed to keep energy markets open. But even here, some protectionist pressure remains. Proposals for an oil import tariff are still before Congress, although support seems to be waning as the effects of such a tariff become better understood.

Potash

Potash is the province's most important mineral industry after oil and the third largest export. In 1985, Saskatchewan potash sales of about $645 million equalled about 4 per cent of the provincial Gross Domestic Product. The industry directly employs about 4,000 people. About 95 per cent of the province's production is exported.

Saskatchewan potash mines are the most efficient in the world, although this advantage is offset by freight rate costs. Saskatchewan supplies about 60-70 per cent share of the U.S. market and is the largest supplier to all the major Asian customers: India, China, Japan and South Korea.

Saskatchewan faces no significant barriers in most markets. However, there are strong political pressures in the U.S. to support its potash industry. American producers have taken action against Saskatchewan and other competitors in the past, primarily through anti-dumping allegations. Currently, several potash producers are seriously considering filing a petition for anti-dumping action against imports of Canadian potash.

Uranium

Uranium is Saskatchewan's third most important mineral industry. The industry's 1985 sales were about $459 million, of which about 85 per cent ultimately was exported from Canada. The U.S. is the province's principal customer, purchasing around 35 per cent of our uranium exports.

The industry employs about 1,200 people in Saskatchewan, mostly in the north where jobs are scarce.

Saskatchewan can produce more uranium, and at a lower cost, than any other producer in the world. The province has extensive reserves of high-grade ore and is the world's dominant uranium supplier. Since transportation costs are minimal, the distance from the mines to the final customer is not a problem for our industry's cost competitiveness.

The Saskatchewan uranium industry may be seriously affected by a U.S. District Court ruling, which orders the U.S. Energy Department to limit the amount of foreign uranium it processes to 25 per cent of the total until December 31, 1986. After that, the court ruled, DOE should process no foreign uranium.

This action could eventually shut down Canadian exports of uranium to the United States. The U.S. Administration has launched an appeal and requested a stay of execution. The stay of execution has been granted pending the hearing of the appeal.

Forestry

The forestry industry continues to be an important contributor to provincial employment and Gross Domestic Product. In 1980, a major study conducted by the Canadian Forestry Service determined that Saskatchewan's forestry sector made up 18.3 per cent of the value of shipments of goods in the manufacturing sector, second only to the food and beverage sector.

In 1984, softwood lumber sales outside the province were $37 million, with $15.6 million destined for the U.S. market.

Current employment is estimated to be about 3,000 person years of direct employment and an additional 3,500 person years of indirect employment. Twelve Saskatchewan communities in central Saskatchewan are wholly, or heavily, dependent on forestry for their continued livelihood.

Free trade already exists between the U.S. and Canada for most forest products. Kraft pulp, lumber and most piece products may be exported or imported free of all tariffs and non-tariff barriers. This arrangement has worked exceedingly well for Canada. However, the recently-filed U.S. countervail duty petition, if successful, would result in a 27 per cent duty on Canadian softwood lumber exports to the American market.

A freer trade arrangement with the U.S. would secure access for Saskatchewan's softwood lumber, plywood, waferboard, as well as paper from the proposed paper mill in Prince Albert.

Steel

The Saskatchewan steel industry employs about 2,000 people and provides products and services to the local oil and gas industry.

The major steel products manufactured in Saskatchewan are pipes and tubes. However, some plate, sheet and strip steel is produced as well. The only export market for pipes and tubes is the United States. The geographic remoteness of the major American steel producers allows Saskatchewan to ship products to the U.S. mid-west.

A U.S. countervail duty of .72 per cent of the value has been imposed on IPSCO's Oil Country Tubular Goods exported to the United States. More recently, anti-dumping duties of 40.8 per cent have been levied on IPSCO's exports of these products. This anti-dumping action effectively cuts out potential steel product exports to the United States. The company is now appealing both the anti-dumping and countervailing duty decisions.

Currently, there is pressure in the U.S. to remove Canada's exemption from the voluntary export restraint program on steel products.

Farm Equipment Manufacturing

Saskatchewan has a strong and innovative short-line farm equipment manufacturing industry. Approximately 100 small and medium-sized factories across the province employ 3,000 people. A recent survey by the Prairie Implement Manufacturers Association identified export sales of $51 million or 28% of total sales of $182 million by Saskatchewan manufacturers.

The majority of agricultural equipment moves between the U.S. and Canada tariff free. However, there remain a number of products which are subject to tariffs.

Even though Canadian exports to the U.S. have increased substantially and the U.S. trade deficit on farm equipment has increased, there have been no significant non-tariff barriers placed on this sector. However, one barrier encountered by Canadian exporters is their inability to obtain product liability insurance in the United States.

Electronics

The electronics manufacturing sector is comprised of over 100 establishments most of which are very small business concerns. Northern Telecom, with its fibre optics plant, Develcon and SED Systems are the largest companies in this sector.

In 1985, exports were at least $80 million, of which approximately 65 per cent were shipped to the United States.

Non-tariff barriers do affect this industry. Many states have Buy American policies in place to protect their own budding high-tech industries. As well, U.S. procurement tenders are often open only to American firms on "national security" or other grounds. The problem of differing interpretations on the classification of certain electronic products by U.S. customs officials also remains an issue.

Services

Services is the largest contributing sector to the Saskatchewan GDP. With $3 billion (1985) in sales, it accounts for 17 per cent of provincial GDP and 29.4 per cent of total employment. Some of the service industries have grown significantly and offer potential for further growth, including exports.

There is no multilateral agreement covering trade in services. The U.S. has taken the initiative to include services in trade negotiations both bilaterally and multilaterally. Some, but not all, service industries engage in cross-border activity. Several barriers to trade in services have been identified, including: regulation and licensing, professional requirements, labour mobility and immigration rules and procedures, right of establishment and government policies and rules such as procurement and local preference.

A preliminary review suggests that the following Saskatchewan service sectors have current or potential export interests:

- business/computer services;
- engineering/scientific consulting;
- agricultural services, education, dryland farm management, technology/software transfer;
- trucking/transportation;
- construction and
- tourism.

CONCLUSION

Saskatchewan has a definite stake in both the bilateral and multilateral negotiations. It is crucial that we secure and enhance our access to the U.S. market through striking a beneficial deal with the U.S. to restrain protectionist measures. It is imperative that the principles and rules of the GATT be extended to agriculture in the next multilateral negotiations in order to limit and reduce agricultural export subsidies. A more liberalized multilateral trading environment will allow Saskatchewan to increase its exports to the U.S. and the rest of the world.

Canada and the U.S. have agreed to negotiate a trade agreement involving the broadest possible package of mutually-beneficial reductions of tariff and non-tariff barriers to trade in goods and services. A similar objective is likely to be adopted by the contracting parties under GATT this September.

The high stakes justify the importance of a major Saskatchewan role throughout the course of both sets of negotiations. Our priorities and interests are different than those of the industrial base in Central Canada. Saskatchewan has a unique perspective to contribute to the negotiations because our internationally-competitive, resource-based economy is highly dependent on exports. Further, our heavy reliance on imports, be they from other provinces or the U.S., gives Saskatchewan a different viewpoint on consumer interests.

In developing Saskatchewan's objectives and priorities in these negotiations, we need to determine the impacts on Saskatchewan producers, consumers and employees of any new trade arrangement which provides a more open and predictable trading environment for the Canadian and Saskatchewan economies.

THE ABC's OF TRADE: A GLOSSARY OF TERMS

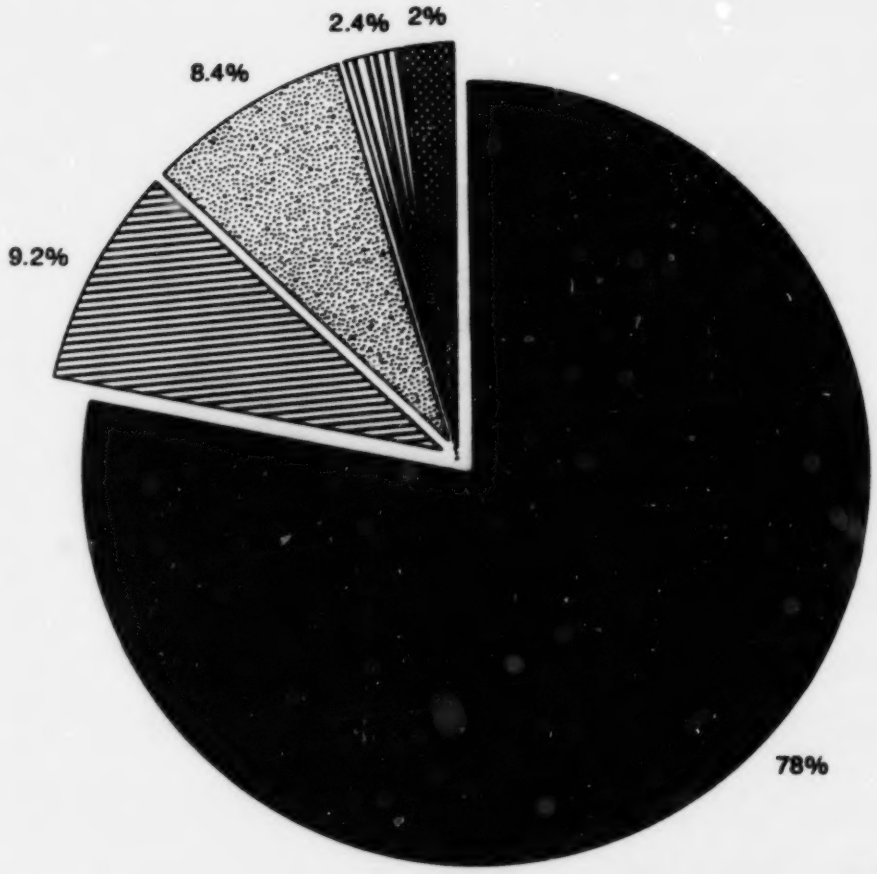
Anti-dumping	Additional duties imposed by an importing country when it can be proved, through a tribunal process, that the exporter is selling goods at prices below those charged in its home market.
Auto Pact	In 1965, Canada and the United States signed an agreement which "manages" the free movement of new automobiles and original parts between the two countries. The Auto Pact stipulates safeguard measures which ensure minimum levels of Canadian content.
Common Market	A trading arrangement where (i) there are no trade barriers between member countries thus permitting a free movement of goods and services, (ii) all member countries harmonize their external tariff and non-tariff barriers, and (iii) there is a free movement of labour and capital between member countries.
Contingency Protection	General term which includes all measures of protection against import competition other than tariffs. More specifically, it comprises measures against both unfair competition (anti-dumping and countervailing duties) and fair, but injurious, competition ("safeguard" actions).
Countervailing Duty	Also known as countervail. Additional duties imposed by an importing country to offset government subsidies in an exporting country when the importing country believes its domestic industry is being harmed as a result.

Customs Union	A trading agreement where (i) there are no trade barriers between member countries and (ii) there are harmonized trade barriers against non-member countries. This arrangement does not legislate the free movement of labour and capital between member countries.
Free Trade Area	A trading arrangement which allows free movement of goods and services between member countries by eliminating all tariff and some non-tariff barriers. This arrangement does not require common external trade barriers by member countries nor does it legislate free movement of labour and capital between member countries.
GATT	The General Agreement on Tariffs and Trade is a multilateral treaty, subscribed to by 92 countries, or contracting parties, which together account for more than four-fifths of world trade. GATT prescribes rules for international trade. Its primary objective is to liberalize world trade and ensure security, thereby contributing to global economic growth and development.
Government Procurement	This term refers to purchases of goods and services by official government agencies. Government procurement practices which encourage purchases from domestic suppliers when imported goods are more competitive are considered a non-tariff barrier.
Import Quota	An explicit limit, usually by volume, on the amount of a specified commodity that may be imported into a country.
Intellectual Property	An all-encompassing term which refers to new ideas, inventions, designs, writings, films, etc. which are protected by copyright, patents, trademarks, etc..

Most Favoured Nation Treatment	A GATT commitment that if one country extends more favourable treatment to any other country then it must also extend this to all other members of GATT. There are certain exceptions to Most Favoured Nation Treatment, including the formation of free trade areas and customs unions.
Multilateral Trade Negotiations	Series of negotiations culminating in simultaneous agreements among participating countries to reduce tariffs and non-tariff barriers to trade. Seven rounds of multilateral negotiations have been held since GATT was established in 1947. The seventh round of negotiations (the Tokyo Round) took seven years to complete (1973-79).
National Treatment	Article III of the GATT requires that once a foreign product has been imported into a country, it shall receive the same treatment as domestic products with respect to taxation and all regulations regarding sales, transportation, distribution and use.
Non-tariff Barriers	Government measures or policies other than tariffs or any measure which restricts or distorts international trade. Examples include contingency protection measures such as anti-dumping duties, countervailing duties; safeguards, such as quotas and voluntary export restraints; as well as technical standards; health standards and discriminatory government procurement practices.

Safeguards	Under Article XIX of the GATT, a country may act to control imports, even if they are not subsidized, in those circumstances where they cause or threaten to cause "serious injury" to domestic producers of similar products. These safeguard measures must be applied on a non-discriminatory basis to imports from all sources. The exporting country is permitted to seek compensation for such safeguard measures.
Sectoral Trade Agreement	A trade agreement limited in its application to a particular group of related products comprising one sector. The Canada-U.S. Auto Pact is an example of a bilateral sector agreement while the GATT Aircraft Agreement is an example of a multilateral sectoral agreement.
Subsidy	A bounty, grant or other form of government assistance bestowed directly or indirectly upon the manufacture, production or export of any merchandise.
Tariff	A tariff is a tax on imports; the tariff rate is the rate at which imported goods are taxed.
Voluntary Export Restraint	A sector-specific compromise between two countries where the exporting country 'voluntarily' agrees to limit exports to a given volume. For example, Canada has such an agreement with Japan which limits the shipments of Japanese automobiles into Canada.

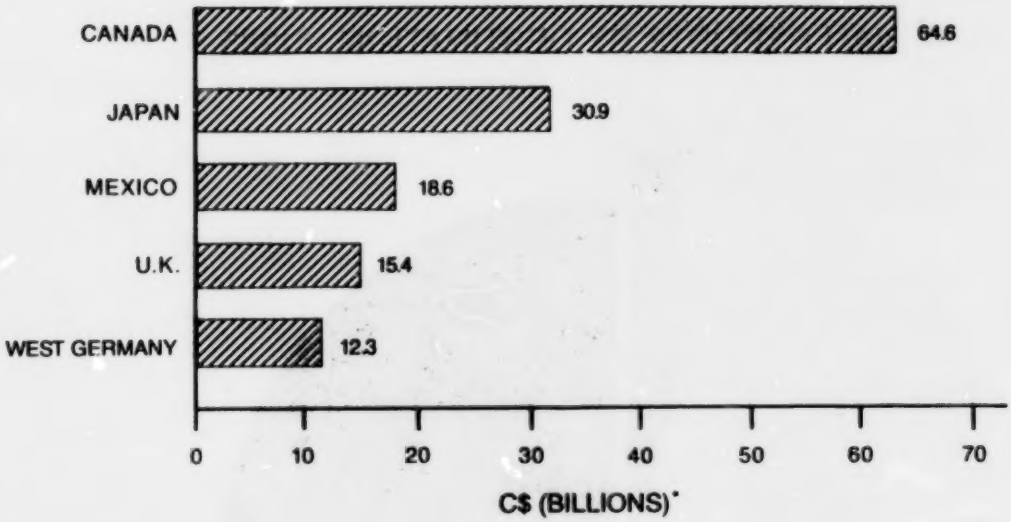
CANADIAN EXPORTS BY DESTINATION – 1985



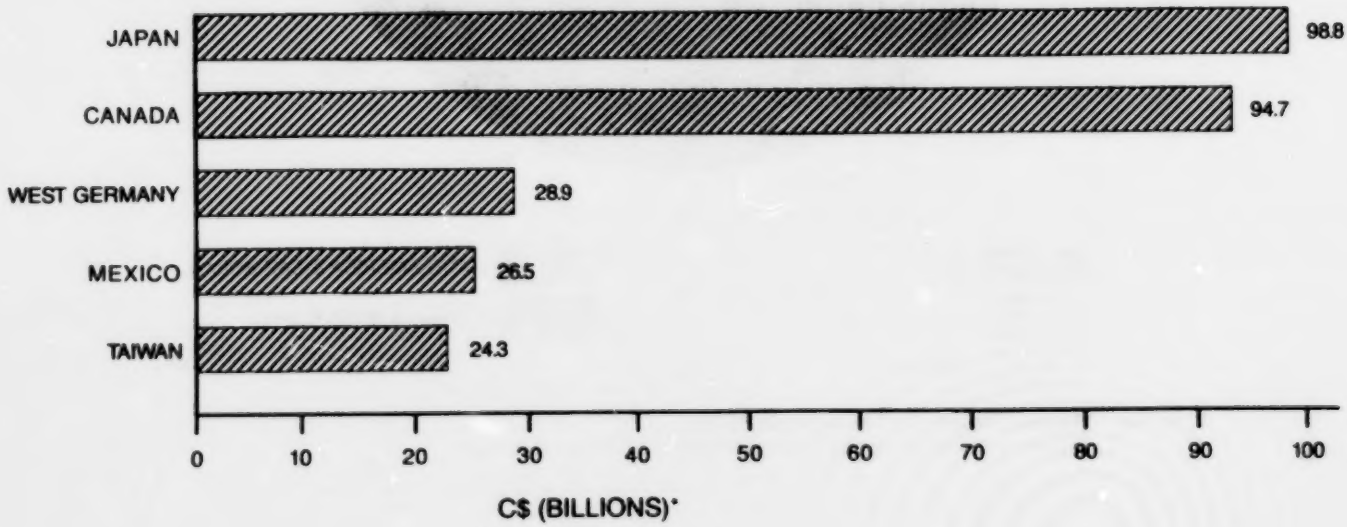
U.S.A.
ASIA & PACIFIC
EUROPE
LATIN AMERICA & CARIBBEAN
AFRICA & MIDDLE EAST

Source: Statistics Canada; Catalogue number 65-003
Exports by Countries January-December 1985 and CANSIM Database

FIVE LARGEST MARKETS FOR U.S. EXPORTS (1985)

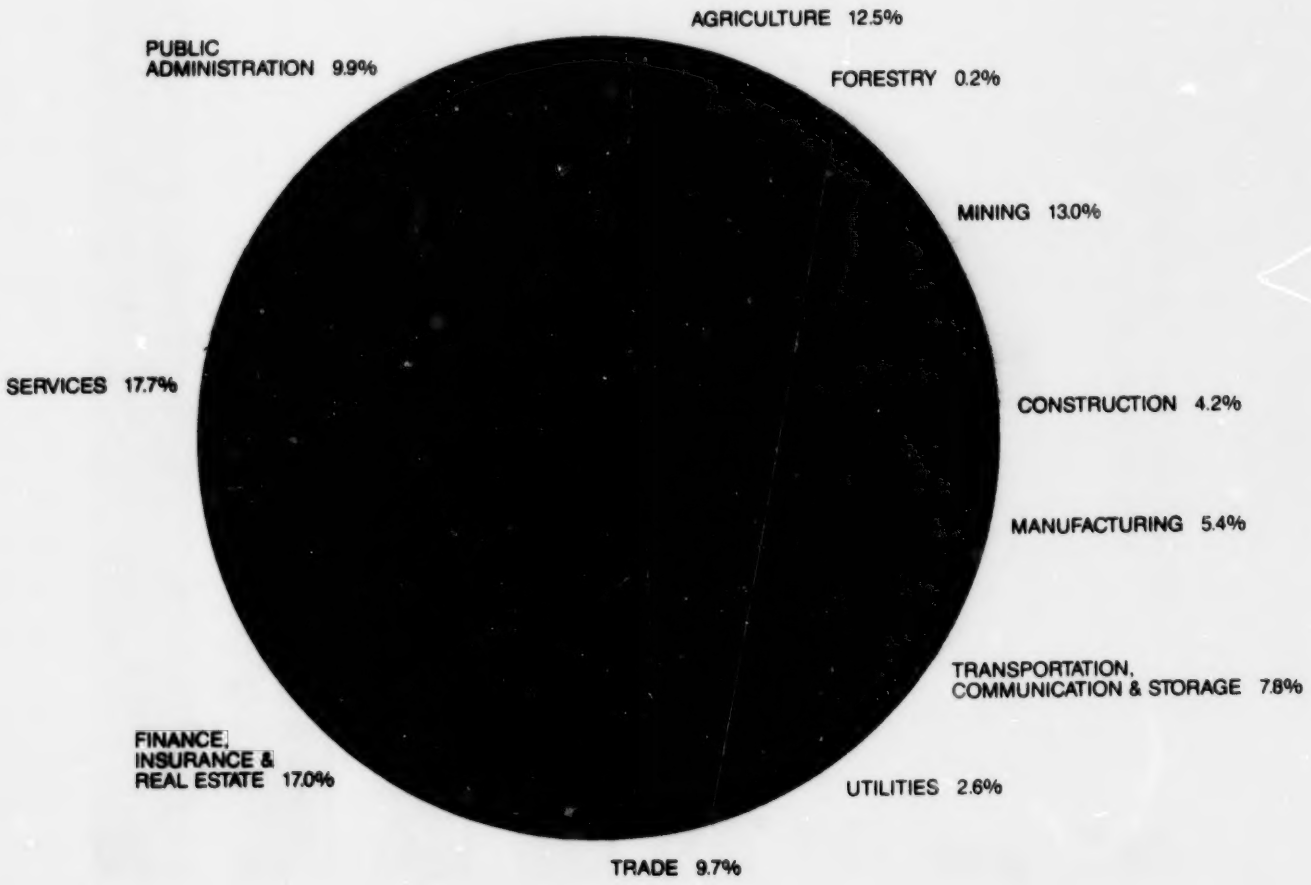


FIVE LARGEST EXPORTERS TO THE UNITED STATES (1985)

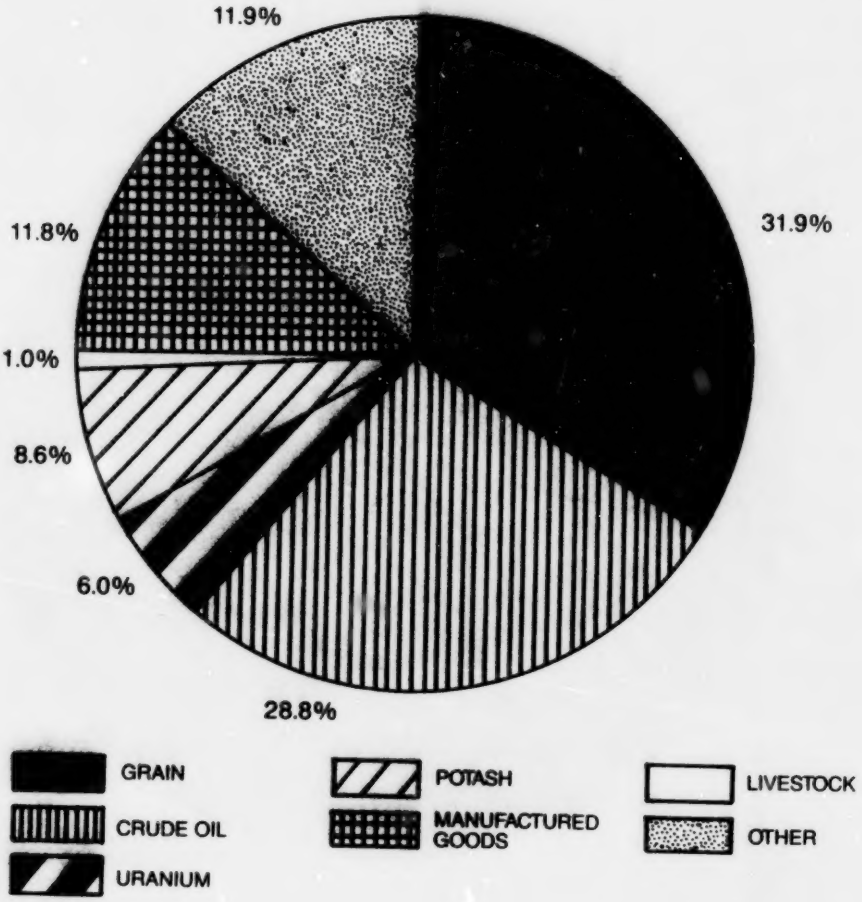


* CONVERTED AT AVERAGE 1985 EXCHANGE RATE: 1.3652

1985 SASKATCHEWAN GDP
(PRELIMINARY) AT FACTOR COST BY INDUSTRY

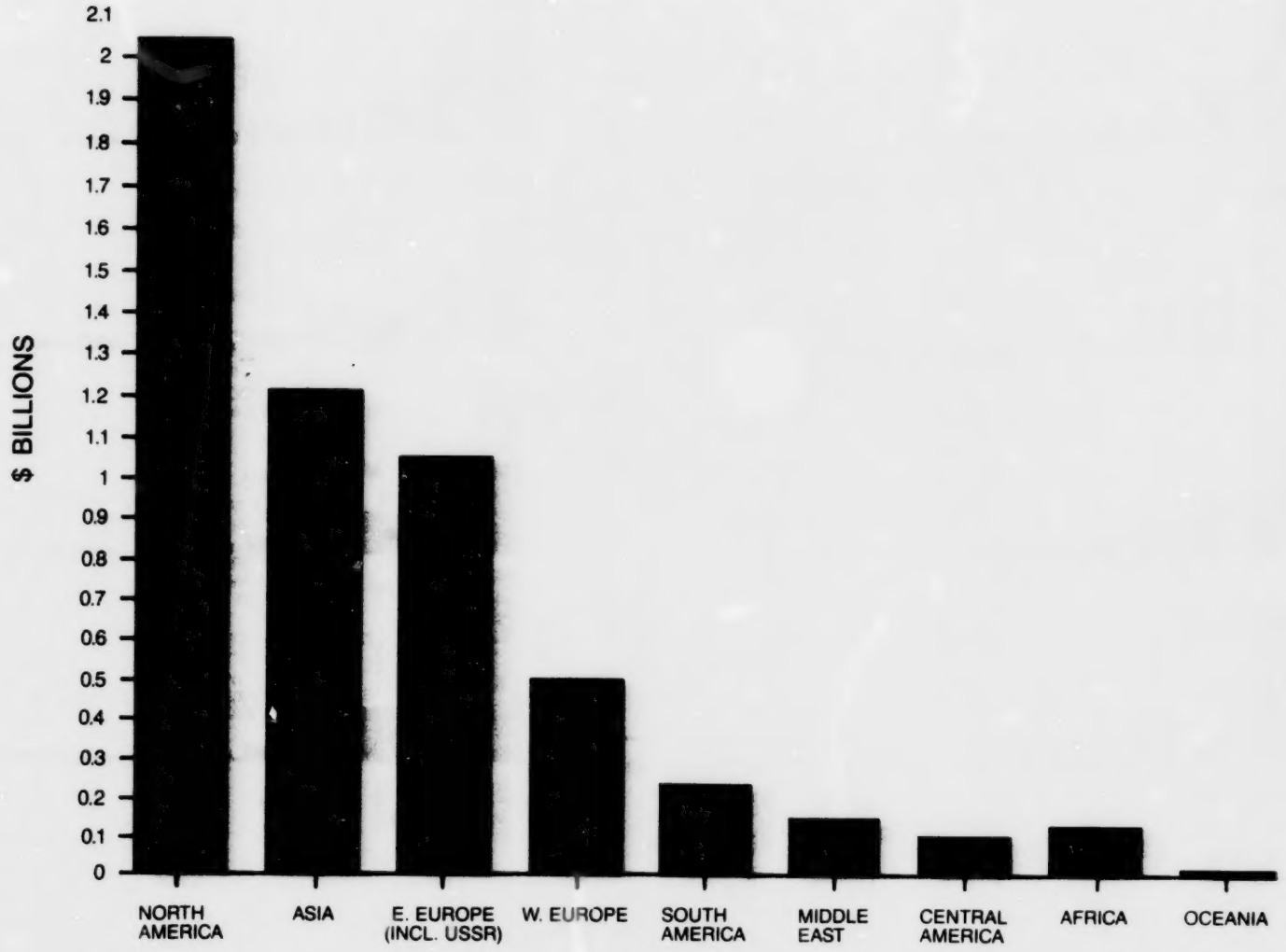


SASKATCHEWAN EXPORTS
1985 (PRELIMINARY)

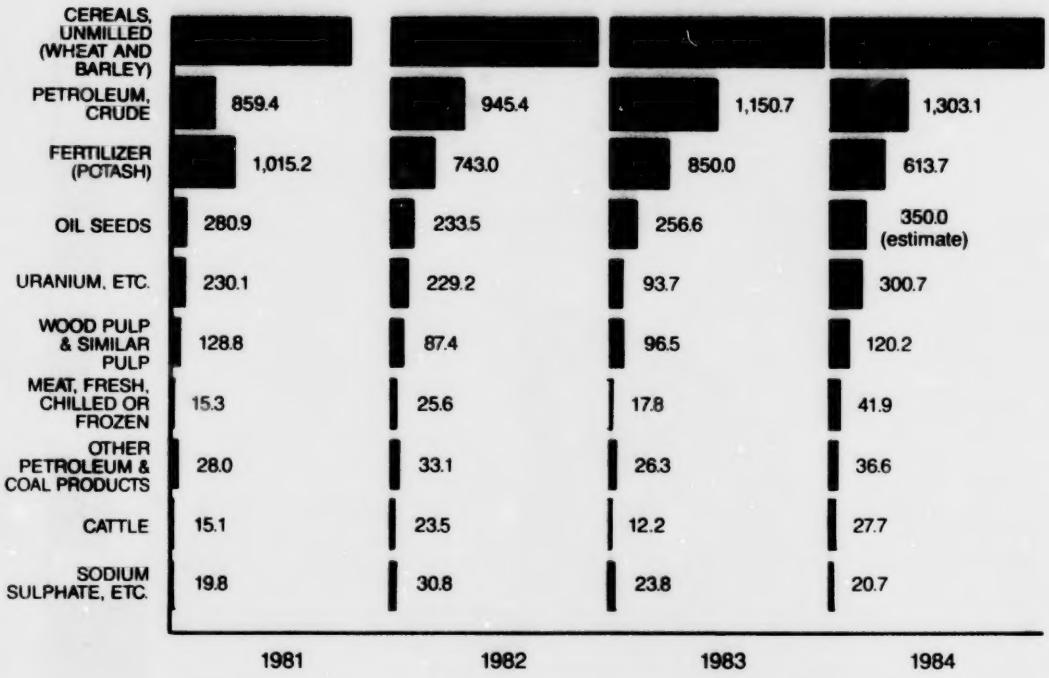


SASKATCHEWAN EXPORTS BY DESTINATION

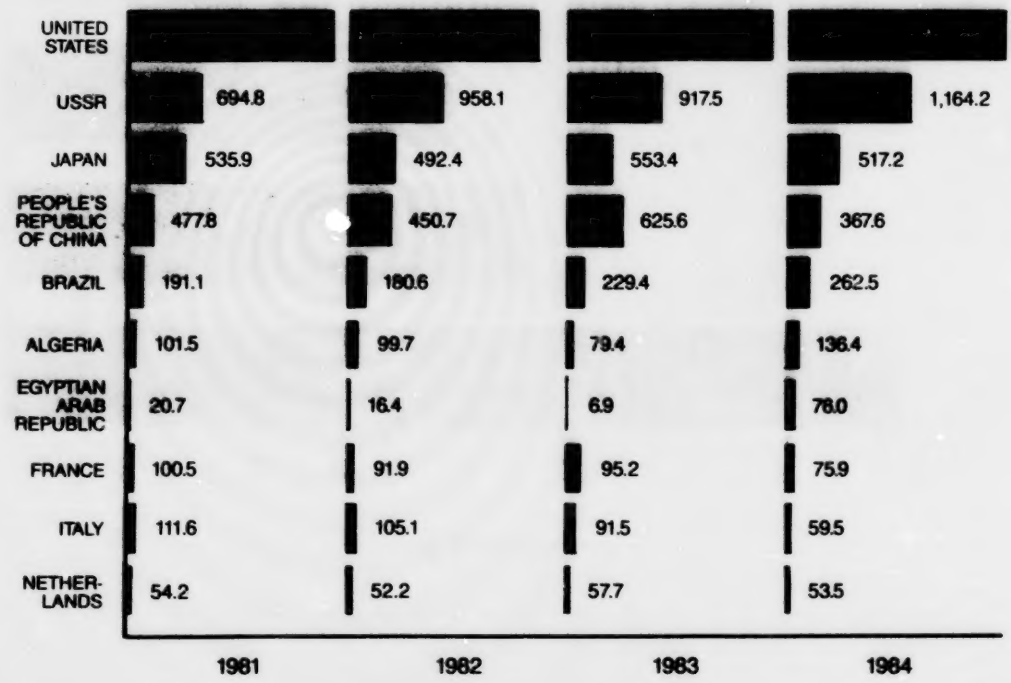
1981 - 1984 AVERAGE



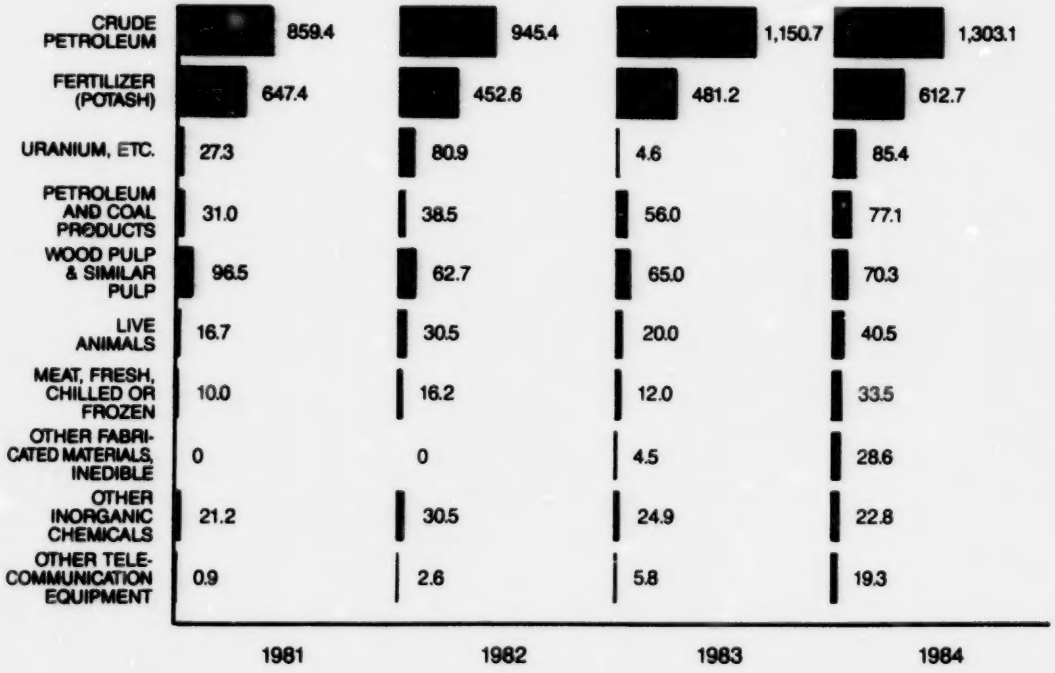
TOP TEN SASKATCHEWAN EXPORTS
(MILLION DOLLARS)



TOP TEN SASKATCHEWAN EXPORT MARKETS
(MILLION DOLLARS)



TOP TEN SASKATCHEWAN EXPORTS TO THE UNITED STATES
(MILLION DOLLARS)



RELEVANT PUBLICATIONS

PUBLISHED BOOKS

Carmichael, Edward A., New Stresses on Confederation, C.D. Howe Institute, 1986.

D'Cruz, Joseph R. and Fleck, James D., Canada Can Compete: Strategic Management of the Canadian Industrial Portfolio, Institute for Research on Public Policy, 1985.

Grey, Rodney de C., Trade Policy in the 1980's, C.D. Howe Institute, 1981.

Hart, Michael, Some Thoughts on Canada-United States Sectoral Free Trade, Institute for Research on Public Policy, 1984.

Keating, Tom and Munton, Don, eds. The Province and Canadian Foreign Policy, Canadian Institute of International Affairs, 1985.

Leyton-Brown, David, Weathering the Storm: Canada-U.S. Relations, 1980-83, C.D. Howe Institute, 1985.

Stone, Frank, Canada, the GATT and the International Trading System, Institute for Research on Public Policy, 1984.

Wonnacott, R.J., Canada's Trade Options, Economic Council of Canada, 1975.

Wonnacott, R.J., Canada-United States Free Trade: Problems and Opportunities, Ontario Economic Council, 1985.

REPORTS AND STUDIES

Canada West Foundation, Western Perspectives, 1985.

Canada West Foundation, Canadian Common Market, International Trade and International Competitiveness, 1985.

Canadian Grain Marketing Summit, Proceedings of the Canadian Grain Marketing Summit, 1986.

Canadian Institute of International Affairs, Canada's International Relations, 1986.

External Affairs Canada, Competitiveness and Security, Directions for Canada's International Relations, 1985.

First Ministers' Conference, Canada-U.S. Free Trade: U.S. Perspectives and Approaches, Edward Nef. 1985

First Ministers' Conference on the Economy, Canada and the World: Competing for International Markets, 1985.

Report of the Royal Commission on the Economic Union and Development Prospects for Canada, Vol. I., Supply and Services Canada, 1985.

Government of Saskatchewan

Saskatchewan
Trade
Negotiations
Secretariat